

**REPORT OF THE AUDIT OF THE
FORMER OWSLEY COUNTY
SHERIFF**

**For The Period
January 1, 2002 through January 5, 2003**



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Cale Turner, Owsley County Judge/Executive
Honorable Paul Short, Former Owsley County Sheriff
Honorable Kelley Shouse, Owsley County Sheriff
Members of the Owsley County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the former Sheriff of Owsley County, Kentucky, for the period January 1, 2002 through January 5, 2003.

We engaged Ross & Company, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC, evaluated the former Owsley County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
FORMER OWSLEY COUNTY
SHERIFF**

**For The Period
January 1, 2002 to January 5, 2003**

**ROSS & COMPANY, PLLC
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Louisville, KY 40299
Telephone (502) 499-9088
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER OWSLEY COUNTY SHERIFF

For The Period January 1, 2002 Through January 5, 2003

Ross & Company, PLLC was engaged to audit the former Owsley County Sheriff's Statement of Receipts, Disbursements, and Excess Fees for the period ended January 1, 2002 through January 5, 2003. We have issued a disclaimer of opinion on the financial statement taken as a whole. Based upon the work performed, the financial statement is not presented fairly in all material respects.

Financial Condition:

Excess fees increased by \$12,262 from the prior calendar year, resulting in excess fees of \$12,266 as of January 5, 2003. Revenues decreased by \$17,002 from the prior year and disbursements decreased by \$31,609.

Debt Obligations:

The records are not available to determine the debt obligation.

Report Comments:

- The Former Sheriff Should Maintain Documentation In Accordance With KRS 68.210 To Substantiate Receipts And Disbursements And Comply With The Required Retention Period So Those Records Are Available For Audit Personnel
- The Former Sheriff Should Collect Amounts Due The Fee Account And Pay Excess Fees Due The County

Deposits:

It is unknown if the former Sheriff's deposits were insured and collateralized by bank securities or bonds because there are not sufficient records to perform the test of pledge of securities.

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Independent Auditor's Report

We were engaged to audit the accompanying statement of receipts, disbursements, and excess fees of the former County Sheriff of Owsley County, Kentucky, for the period January 1, 2002 through January 5, 2003. This financial statement is the responsibility of the former County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

The former Owsley County Sheriff did not maintain adequate accounting records to allow us to verify the receipts, disbursements, and excess fees and determine the validity of the transactions for the period January 1, 2002 through January 5, 2003. We were unable to apply procedures to determine whether the financial statement is presented fairly in conformity with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The former Sheriff's records did not permit the application of other auditing procedures to cash receipts, disbursements, and excess fees for the period January 1, 2002 through January 5, 2003.

Since the former Owsley County Sheriff did not maintain accounting records and we were unable to apply other auditing procedures to satisfy ourselves as to the cash receipts, disbursements, and excess fees, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on this financial statement.

In accordance with Government Auditing Standards, we have also issued a report dated May 11, 2004, on our consideration of the former County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our engagement.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Cale Turner, Owsley County Judge/Executive
Honorable Paul Short, Former Owsley County Sheriff
Honorable Kelley Shouse, Owsley County Sheriff
Members of the Owsley County Fiscal Court

Based on the results of our findings, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Former Sheriff Should Maintain Documentation In Accordance With KRS 68.210 To Substantiate Receipts And Disbursements And Comply With The Required Retention Period So These Records Are Available For Audit Personnel
- The Former Sheriff Should Collect Amounts Due The Fee Account And Pay Excess Fees Due The County

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive, flowing style.

Ross & Company, PLLC

Audit fieldwork completed –
May 11, 2004

OWSLEY COUNTY
PAUL SHORT, FORMER COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

January 1, 2002 Through January 5, 2003

Receipts

Federal Grants		\$	15,416
State - Kentucky Law Enforcement Foundation Program Fund			835
State Fees For Services:			
Sheriff's Security Service	\$	795	
Other		443	1,238
Circuit Court Clerk:			
Sheriff Security Service	\$	655	
Fines and Fees Collected		2,748	3,403
Fiscal Court			37,699
County Clerk - Delinquent Taxes			260
Commission On Taxes Collected			32,788
Fees Collected For Services:			
Auto Inspections	\$	705	
Serving Papers		4,982	
Carrying Concealed Deadly Weapons Permits		1,620	7,307
Other:			
Penalty on Tax Collections	\$	4,046	
Miscellaneous		407	4,453
Interest Earned			360
Total Receipts		\$	<u>103,759</u>

The accompanying notes are an integral part of this financial statement.

OWSLEY COUNTY
 PAUL SHORT, FORMER COUNTY SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 January 1, 2002 Through January 5, 2003
 (Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries		\$	20,033
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Materials and Supplies-

Office Materials and Supplies	\$	1,220	
Uniforms		1,513	2,733

Auto Expense-

Gasoline	\$	3,507	
Maintenance and Repairs		1,137	4,644

Other Charges-

Telephone	\$	3,607	
Tower Rental		225	
Carrying Concealed Deadly Weapons Permits		960	
Miscellaneous		1,479	6,271

Total Disbursements		\$	33,681
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Net Receipts		\$	70,078
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Less: Statutory Maximum			57,812
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Excess Fees Due County for Calendar Year 2002		\$	12,266
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Payments to County Treasurer - May 11, 2004			4,280
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Balance Due at Completion of Audit		\$	7,986
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The accompanying notes are an integral part of this financial statement.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENT

January 1, 2002 Through January 5, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2002.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months of the year and 6.34 percent for the last six months of the year.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENT
January 1, 2002 Through January 5, 2003
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. However, as of January 5, 2003 we were not able to determine if the collateral and FDIC insurance together did or did not equal or exceed the amount on deposit. In addition, we were unable to determine if the former Sheriff had or did not have a written agreement with the depository institution securing the former Sheriff's interest in the collateral.

COMMENTS AND RECOMMENDATIONS

OWSLEY COUNTY
PAUL SHORT, FORMER COUNTY SHERIFF
COMMENT AND RECOMMENDATION

January 1, 2002 Through January 5, 2003

STATE LAWS AND REGULATIONS:

The Former Sheriff Should Maintain Documentation In Accordance With KRS 68.210 To Substantiate Receipts And Disbursements And Comply With The Required Retention Period So Those Records Are Available For Audit Personnel

The Former Sheriff did not comply with KRS 68.210 "Minimum Requirements Pursuant to KRS 68.210 For All Local Government Officials (And Employees) Handling Public Funds" in that the following was not available for our inspection and testing of transactions:

- A. Daily Checkout Sheets
- B. Receipts Ledger
- C. Disbursements Ledger
- D. Proper bonding of officials and personnel in Sheriff's office handling of public funds
- E. Financial Statement not published
- F. Check Register
- G. Pledge of Securities
- H. Monthly Bank Reconciliation's
- I. Invoices
- J. Bank Deposit Receipts
- K. Warrant Register

The above inadequate records and documents prevented us from conducting an audit of the books and records.

Former County Sheriff's Response: None

The Former Sheriff Should Collect Amounts Due The Fee Account And Pay Excess Fees
Due the County

The proper payment of excess fees requires the collection of receivables and payment of these funds to the Owsley County Fiscal Court as excess fees for calendar year 2002. The following collections should be made:

Money Due From Others:

2001 Tax Account:	\$ 4,046
2002 Tax Account:	<u>3,940</u>

Total Due From Others	<u><u>\$ 7,986</u></u>
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Money Due To Others:

Owsley County Fiscal Court	<u><u>\$ 7,986</u></u>
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OWSLEY COUNTY
PAUL SHORT, FORMER COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
January 1, 2002 Through January 5, 2003
(Continued)

We recommend the Former Sheriff collect the amounts due the Fee Account and pay his excess fees.

Former County Sheriff's Response: None

PRIOR YEAR:

The Former Sheriff Should Maintain Documentation In Accordance With KRS 68.210 To Substantiate Receipts And Disbursements And Comply With The Required Retention Period So These Records Are Available For Audit Personnel

Comment Repeated in Current Year

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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The Honorable Cale Turner, Owsley County Judge/Executive
Honorable Paul Short, Former Owsley County Sheriff
Honorable Kelley Shouse, Owsley County Sheriff
Members of the Owsley County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We were engaged to audit the statement of receipts, disbursements, and excess fees of the former Owsley County Sheriff for the period January 1, 2002 through January 5, 2003, and have issued our report thereon dated May 11, 2004 wherein we disclaimed an opinion on the financial statement because the former Sheriff did not maintain adequate accounting records.

Compliance

As part of obtaining reasonable assurance about whether the former Owsley County Sheriff's financial statement for the period January 1, 2002 through January 5, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comment and recommendation.

- The Former Sheriff Should Maintain Documentation In Accordance With KRS 68.210 To Substantiate Receipts And Disbursements And Comply With The Required Retention Period So Those Records Are Available For Audit Personnel.
- The Former Sheriff Should Collect Amounts Due The Fee Account And Pay Excess Fees Due the County.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comment and recommendation.

- The Former Sheriff Should Maintain Documentation In Accordance With KRS 68.210 To Substantiate Receipts And Disbursements And Comply With The Required Retention Period So Those Records Are Available For Audit Personnel.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition noted above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in black ink.

Ross & Company, PLLC

Audit fieldwork completed -
May 11, 2004

